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UNCLAS SECTION 01 OF 03 ASHGABAT 000532

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SUBJECT: UKRAINE'S INTERBUDMONTAZH OPERATIONS IN
TURKMENISTAN

REF: A) ASHGABAT 389 B) ASHGABAT 308

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SUMMARY

1. (SBU) GENERAL DIRECTOR OF UKRAINIAN COMPANY INTERBUDMONTAZH VADIM SULIM TOLD POL/ECON OFF ON MAY 11 THAT THE COMPANY HAD NO PART IN THE TURKMENISTAN-UKRAINE BARTER FOR GAS AGREEMENTS AND WAS NOT INVOLVED IN THE OIL AND GAS SECTOR, DESPITE MULTIPLE PRESS REPORTS TO THE CONTRARY. INTERBUDMONTAZH, THE LARGEST UKRAINIAN COMPANY OPERATING IN TURKMENISTAN, IS BUILDING A 32 KILOMETER UNDERGROUND DRAINAGE AND COMMUNICATIONS SYSTEM IN ASHGABAT UNDER CONTRACT WITH THE ASHGABAT MAYOR'S OFFICE. THE COMPANY HAS 4,000 EMPLOYEES IN TURKMENISTAN, 70% OF WHOM ARE LOCAL. FEATURING A WELL CONNECTED FOUNDER AND FORMER CHAIRMAN, AND APPARENT ACCESS TO BOTH PRESIDENTS NIYAZOV AND YUSHCHENKO, SULIM'S ROSY PICTURE OF INTERBUDMONTAZH'S WORK IN ASHGABAT PROBABLY IS NOT THE WHOLE PICTURE AND THE COMPANY'S LACK OF FORTHRIGHTNESS SUGGESTS TURKMENISTAN-UKRAINE BARTER-FOR-GAS DEBT, DESPITE GOTX AND GOU PRONOUNCEMENTS, IS STILL FAR FROM TRANSPARENT. END SUMMARY.

COMPANY HISTORY

2. (SBU) GENERAL DIRECTOR OF THE PRIVATE UKRAINIAN COMPANY INTERBUDMONTAZH VADIM SULIM DETAILED ON MAY 11 TO POL/ECONOFF THE SPECIALIZED CONSTRUCTION COMPANY'S ACTIVITIES IN TURKMENISTAN. THE COMPANY WAS CREATED IN 2000 AS THE INTERNATIONAL ARM OF A HOLDING COMPANY OF THE SAME NAME EXPRESSLY TO ENGAGE IN CONSTRUCTION PROJECTS IN TURKMENISTAN. THE HOLDING COMPANY ITSELF GREW OUT OF KIEV-BASED CONSTRUCTION COMPANY KYIVBUDINVEST, WHICH WAS FOUNDED IN 1993. IN ADDITION TO KYIVBUDINVEST AND INTERBUDMONTAZH, THE HOLDING COMPANY CONSISTS OF UKRSPETSTUNNELPROEKT, INTERTRANSBUD, INTERBUDTUNNEL, AND POLTAVANAFTOGAZBUD. ACCORDING TO COMPANY PROMOTIONAL MATERIAL RECEIVED FROM SULIM, 68% OF THE HOLDING COMPANY'S ACTIVITIES OCCUR OUTSIDE OF UKRAINE.

OPERATIONS IN TURKMENISTAN

3. (SBU) SULIM STATED THAT INTERBUDMONTAZH'S PRIMARY PROJECT

IN TURKMENISTAN WAS THE DRAINAGE AND COMMUNICATIONS TUNNEL PROJECT, A PLANNED TEN YEAR PROJECT TO CONSTRUCT AN UNDERGROUND TUNNEL RING AROUND ASHGABAT WITH CONNECTING BRANCHES TO CARRY CITY DRAINAGE, SEWAGE, AND COMMUNICATIONS. AWARDED IN 2000, THE PROJECT BEGAN IN 2002 AND IS RUNNING ON SCHEDULE, ACCORDING TO SULIM. ASHGABAT'S UNIQUE SEISMOLOGY AND GROUND WATER TABLE MAKES THIS PROJECT UNIQUE, HE ADDED. ALTHOUGH HE WAS NOT PART OF THE 2000 PROJECT TENDER PROCESS, SULIM CLAIMED INTERBUDMONTAZH WON HANDILY AGAINST COMPETING COMPANIES FROM GERMANY AND FRANCE. HE BOASTED THAT IN ADDITION TO INTERBUDMONTAZH ONLY TWO OTHER COMPANIES IN THE WORLD - IN CHINA AND INDIA - HAD THE TECHNICAL KNOW-HOW TO ACCOMPLISH THIS TYPE OF PROJECT. SULIM DECLINED TO COMMENT ON THE OVERALL COST OF THE PROJECT, THOUGH A JUNE 2005 ARTICLE ON THE PRO-GOVERNMENT WEBSITE TURKMENISTANINFO.RU VALUED THE PROJECT AT \$204 MILLION.

14. (SBU) IN ADDITION TO THE TUNNEL RING PROJECT, INTERBUDMONTAZH DID ADDITIONAL INFRASTRUCTURE PROJECTS "AT THE REQUEST OF THE TURKMEN SIDE." THE COMPANY BUILT FOUR UNDERGROUND PEDESTRIAN CROSSINGS FOR ASHGABAT'S MIND-NUMBINGLY WIDE EIGHT-LANE AVENUES, AND CONSTRUCTED WATER RESERVOIRS FOR SURROUNDING VILLAGES AND A PLANNED TURKMEN-FAIRYTALE WATER THEME PARK. CORPORATE MATERIALS SUPPLIED BY SULIM ALSO NOTED AS PART OF THE COMPANY'S CONSTRUCTION PORTFOLIO THIRTY COTTAGES NEAR THE PRESIDENTIAL RESIDENCE AND A WATER-DIVERSION CANAL FOR THE WATER THEME PARK, WHICH IS BEING BUILT WITH TWO TURKISH COMPANIES. (NOTE. SULIM PROVIDED NO INFORMATION ON THESE LATTER TWO PROJECTS DURING THE MEETING. END NOTE.) SULIM SAID INTERBUDMONTAZH, AS A CONSTRUCTION COMPANY SPECIALIZED IN TUNNELING AND WATER TRANSPORT INFRASTRUCTURE, WAS NOT INTERESTED IN BUILDING THE SCORES OF APARTMENT BUILDINGS GOING UP IN ASHGABAT (REPORTED REFTEL A).

15. (SBU) INTERBUDMONTAZH ALSO SUBMITTED A PROPOSAL IN 2005 ASHGABAT 00000532 002.2 OF 003

TO PRESIDENT NIZAYOV FOR A MULTI-LINE CITY METRO PROJECT. THE GOTX IS STILL REVIEWING THE PROPOSAL AND NEGOTIATING THE PROJECT'S COST, ACCORDING TO SULIM.

LABOR AND MATERIAL SOURCING

16. (SBU) SULIM NOTED THAT 70% OF THE COMPANY'S 4,000 EMPLOYEES WERE LOCAL, WITH THE REMAINDER COMING FROM UKRAINE. THE RATIO OF LOCAL TO FOREIGN LABOR WAS SET IN THE COMPANY'S CONTRACT WITH THE MAYOR'S OFFICE, SULIM ADDED. (NOTE: MINISTER OF FOREIGN AFFAIRS MEREDOV HAS TOLD EMBASSY THAT BY LAW ALL FOREIGN COMPANIES OPERATING IN TURKMENISTAN MUST HAVE AT LEAST 70% LOCAL LABOR. END NOTE.) INTERBUDMONTAZH HIRED LOCAL LABOR AND THEN TAUGHT THEM, AT COMPANY EXPENSE, THE TRADE SKILLS NEEDED FOR THE PROJECT AT THE COMPANY'S IN-HOUSE TRADE SCHOOL.

17. (SBU) INTERBUDMONTAZH IMPORTED CEMENT FOR ITS PROJECTS FROM TEHRAN UNTIL MARCH 2005, BECAUSE LOCAL OFFERINGS DID NOT MATCH THE TECHNICAL STANDARDS REQUIRED FOR ASHGABAT'S SEISMIC ZONE (THE DRAINAGE TUNNEL IS ENGINEERED TO WITHSTAND AN EARTHQUAKE OF 9.0 ON THE RICHTER SCALE). IN MARCH 2005, TURKMENISTAN OPENED THE STATE-OWNED KELETE TURKMEN CEMENT FACTORY AND INTERBUDMONTAZH SINCE THEN HAS SOURCED ITS CEMENT FROM THERE. THE COMPANY'S CONSTRUCTION VEHICLE FLEET IS COMPRISED OF GERMAN, ITALIAN, AND SWISS-MADE EQUIPMENT. THE COMPANY IMPORTS PIPE AND METAL PRODUCTS FROM UKRAINE. INTERPIPE AND MITTAL STEEL (FORMERLY KRYVORIZSTAHL) ARE THE COMPANY'S TWO LARGEST UKRAINIAN SUPPLIERS, SULIM NOTED, WITH THE IMPORTS ARRIVING VIA TURKMENBASHY ON THE CASPIAN SEA. SULIM REPORTED NO PROBLEMS WITH CUSTOMS BEYOND THE OCCASIONAL HEADACHES, WHICH WERE RESOLVED IN "A NORMAL WORKING MANNER."

RELATIONS WITH GOTX

¶8. (SBU) SULIM SAID INTERBUDMONTAZH WAS FAR REMOVED FROM ANY TURKMENISTAN-UKRAINE POLITICAL DISPUTES AND PAINTED A ROSY PICTURE OF INTERBUDMONTAZH-GOTX RELATIONS. THE COMPANY OPERATED UNDER A CONTRACT WITH THE ASHGABAT MAYOR'S OFFICE AND ALSO WORKED WITH THE MINISTRY OF CONSTRUCTION. INTERBUDMONTAZH DISCUSSED ANY PROBLEMS DIRECTLY WITH MAYOR ORAZMYRAT ESENOV, WHO HIMSELF WAS A FORMER CONSTRUCTION MANAGER, WHICH MADE REACHING AGREEMENTS MUCH EASIER (NOTE: ON MAY 12, ESENOV WAS APPOINTED MINISTER OF CONSTRUCTION, WHILE RETAINING HIS MAYORAL APPOINTMENT. FOR MORE ON ORAZMYRAT "THE BULLDOZER" ESENOV, SEE REFTTEL B AND SEPTTEL. END NOTE.) THE MAYOR'S OFFICE MADE REGULAR PAYMENTS IN DOLLARS TO INTERBUDMONTAZH ACCOUNTS AT A LOCAL (UNNAMED) BANK. SULIM SAID THE COMPANY CONVERTED DOLLARS TO MANATS AT THE OFFICIAL EXCHANGE RATE OF 5,200 MANAT TO THE DOLLAR. SULIM EXPRESSED SOME FRUSTRATION AT THIS ARRANGEMENT (NOTE. THE UNOFFICIAL RATE, FREQUENTLY CALLED THE COMMERCIAL RATE, IS 23,400 MANAT TO THE DOLLAR. CURRENCY CONVERSATION IS A SORE POINT WITH MOST FOREIGN COMPANIES DOING BUSINESS IN TURKMENISTAN. END NOTE.), BUT INNOCENTLY RAISED HIS HANDS IN AN EXPRESSION OF "WHAT ELSE CAN WE DO?".

NO RELATION TO TURKMENISTAN-UKRAINE GAS BARTER DEALS?

¶9. (SBU) WHEN PRESSED ON INTERBUDMONTAZH'S RELATION TO THE ONGOING TURKMENISTAN-UKRAINE 2005 BARTER-FOR-GAS DEBT DISPUTE, SILUM CATEGORICALLY DENIED INTERBUDMONTAZH'S INVOLVEMENT IN EITHER THE DEBT DISPUTE OR THE TURKMENISTAN OIL AND GAS SECTOR IN GENERAL. SILUM SAID THE COMPANY WAS NOT INVOLVED WITH THE CLEARINGHOUSE FOR GAS BARTER PAYMENTS, WITH ANY COEFFICIENT CONTRACTS NEGOTIATED BETWEEN THE GOVERNMENTS, OR WITH ANY PURCHASE-AND-SALE AGREEMENTS.

¶10. (SBU) DESPITE SULIM'S CLAIMS OF APOLITICAL NON-INVOLVEMENT, A MAY 4, 2005 ARTICLE IN THE GOVERNMENT-OWNED NEWSPAPER NEUTRALNYI TURKMENISTAN LISTED INTERBUDMONTAZH CHAIRMAN O. CHYZHOV AS PART OF A UKRAINIAN DELEGATION TO TURKMENISTAN THAT ALSO INCLUDED THEN-CHAIRMAN OF UKRAINE'S STATE OIL AND GAS MONOPOLY NAFTOHAZ OLEKSIY IVCHENKO AND DEPUTY GENERAL DIRECTOR OF UKRAINE'S STATE DEFENSE INDUSTRY COMPANY UKROBORONSERVIS. ACCORDING TO THE ARTICLE, THE

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GROUP MET WITH PRESIDENT NIYAZOV TO DISCUSS BILATERAL COOPERATION UNDER THE NEW GAS-FOR-CASH ARRANGEMENTS AGREED TO BY PRESIDENTS YUSCHENKO AND NIYAZOV IN MARCH 2005. A JUNE 2005 ARTICLE ON THE PRO-GOVERNMENT WEBSITE TURKMENISTANINFO.RU ALSO LISTED THE COMMUNICATION AND DRAINAGE TUNNEL PROJECT AS ONE OF THE TURKMENISTAN-UKRAINE BARTER-FOR-GAS PROJECTS.

¶11. (SBU) INTERBUDMONTAZH APPEARS TO ENJOY SOME LEVEL OF UKRAINIAN POLITICAL PATRONAGE. FEATURED PROMINENTLY IN THE HOLDING COMPANY'S INFORMATION BROCHURE IS AN UNDATED PHOTO OF UKRAINIAN PRESIDENT YUSHCHENKO MEETING INTERBUDMONTAZH WORKERS IN, APPARENTLY, ASHGABAT. IN THE PHOTO NEXT TO YUSHCHENKO ARE THEN-CHAIRMAN OF NAFTOHAZ OLEKSIY IVCHENKO, THEN-UKRAINIAN AMBASSADOR TO TURKMENISTAN VADYM CHUPRUN, AND FORMER CHAIRMAN OF INTERBUDMONTAZH VLADIMIR PETRUK. PETRUK HAS BEEN NAFTOHAZ DEPUTY CHAIRMAN FOR INTERNATIONAL PROJECTS SINCE MARCH 2005. (NOTE. NONE OF THE PERSONS LISTED ABOVE ARE IDENTIFIED IN THE ENGLISH-LANGUAGE BROCHURE. END NOTE.)

COMMENT

¶12. (SBU) INTERBUDMONTAZH GENERAL DIRECTOR SULIM'S LEVEL OF SECRECY CONTRASTED GREATLY WITH THAT OF TURKISH CONSTRUCTION MANAGERS SIMILARLY ENGAGED IN ASHGABAT'S BUILDING BOOM, AND SEVERAL OF HIS STATEMENTS DIDN'T CORRESPOND WITH WIDELY PUBLICIZED REPORTS OF INTERBUDMONTAZH'S INVOLVEMENT IN BARTER-FOR-GAS DEALS. SULIM'S HESITANCY TO COME CLEAN ON PARTS OF HIS COMPANY'S ACTIVITY IN TURKMENISTAN SUGGESTS THAT TURKMENISTAN-UKRAINE GAS DEBT ARRANGEMENTS REMAIN FAR FROM TRANSPARENT. END COMMENT.

BRUSH